

Message Text

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ACTION ARA-14

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E.O. 11652: N/A
TAGS: EGEN, EFIN, PN
SUBJECT: PANAMA FACES INCREASING PUBLIC DEBT PROBLEM

1. SUMMARY: THE GOP'S FINANCIAL PICTURE HAS BECOME DISTRESSING BECAUSE OF ITS INCREASINGLY BURDENSOME DEBT STRUCTURE. DEPT SERVICING INCREASED FROM DOLS 221 MILLION IN 1976 TO DOLS 341 MILLION IN 1977, AND WILL LIKELY RISE TO DOLS 524 MILLION BY 1982. ALSO, NEW BORROWING MUST INCREASE FROM ITS DOLS 500 MILLION LEVEL OF THE PAST TWO YEARS TO DOLS 570 MILLION IN 1982 JUST TO MAINTAIN THE GOP'S CURRENT INVESTMENT LEVEL (A DECLINE IN REAL TERMS). THIS WILL BRING OUTSTANDING DEBT TO DOLS 3062 MILLION IN 1982 COMPARED TO DOLS 1764 MILLION AT YEAREND 1977. THERE IS NO EVIDENCE OF A PEAKING OUT IN THE NEXT DECADE.
END SUMMARY.

2. PANAMA'S PUBLIC SECTOR DEBT SERVICING REQUIREMENTS ROSE SHARPLY TO DOLS 341 MILLION IN 1977 AND FROM DOLS 221 MILLION IN 1976. INTEREST PAYMENTS INCREASED TO DOLS 105 MILLION FROM DOLS 84 MILLION WHILE AMORTIZATION SHOT UP BY ALMOST DOLS 100 MILLION TO DOLS 235 MILLION. THIS IN-
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CREASE REFLECTED THE IMPACT OF THE GROWING VOLUME OF RELATIVELY SHORT TERM FOREIGN BANK BORROWING BY THE GOP IN RECENT YEARS AND LARGE DOMESTIC DEBT REFINANCING (LA VICTORIA). SERVICING OF JUST THE DIRECT DEBT OF THE CENTRAL GOVERNMENT (EXCLUDING AUTONOMOUS AGENCIES) INCREASED FROM DOLS 80 MILLION IN 1976 TO DOLS 119 MILLION IN 1977, AND REPRESENTED 29 PER CENT OF CENTRAL GOVERNMENT

REVENUES IN 1976 BUT 35 PER CENT IN 1977.

3. NEW BORROWING OF DOLS 497 MILLION IN 1977 WAS ONLY SLIGHTLY ABOVE 1976. PRIVATE FOREIGN LENDERS (MOSTLY BANKS) WERE THE MAJOR SOURCE--DOLS 317 MILLION--FURTHER SHORTENING THE GOP'S DEBT REPAYMENT SCHEDULE. LOANS FROM INTERNATIONAL FINANCIAL INSTITUTIONS (AID, IDB, IBRD, EXIM) FELL TO ONLY DOLS 44 MILLION FROM DOLS 61 MILLION THE YEAR BEFORE, WHILE SO-CALLED DOMESTIC BORROWING OF DOLS 135 MILLION, MOSTLY CREDIT FROM FOREIGN BRANCH BANKS IN PANAMA AND THE LA VICTORIA REFINANCING, DECLINED SOMEWHAT.

4. AS A RESULT, PANAMA'S PUBLIC SECTOR DEBT REACHED DOLS 1764 MILLION AT THE END OF 1977 (79 PER CENT OF ITS GDP--EXTREMELY HIGH BY INTERNATIONAL STANDARDS), COMPARED TO DOLS 1502 MILLION (REVISED) AT YEAREND 1976 (75 PER CENT OF GDP). ALL OF THE INCREASE WAS IN EXTERNAL DEBT, WHICH NOW NOMINALLY AMOUNTS TO DOLS 1260 MILLION, ALTHOUGH MUCH OF THE GOP DOMESTIC DEBT ALSO HAS FOREIGN ORIGINS. IN ANY CASE, THE ENTIRE PUBLIC SECTOR DEBT IS A "DOLLAR" OBLIGATION THAT MUST BE SERVICED ULTIMATELY FROM PANAMA'S DOLLAR EARNINGS--PAST OR FUTURE--MAKING THE DOMESTIC/EXTERNAL DISTINCTION ESSENTIALLY MEANINGLESS.

5. OF THIS DOLS 1764 MILLION DEBT, DOLS 890 MILLION (50 PER CENT) IS OWED TO FOREIGN BANKS, WITH AN AVERAGE MATUR-LIMITED OFFICIAL USE

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ITY OF AROUND EIGHT YEARS AND OVERALL INTEREST OF 8.4 PER CENT PAID IN 1977. IN CONTRAST, DOLS 328 MILLION (19 PER CENT) IS OWED TO INTERNATIONAL FINANCIAL INSTITUTIONS MOSTLY ON A LONG-TERM BASIS AT AN AVERAGE INTEREST COST OF 5.0 PER CENT IN 1977.

6. THE GOP'S TOTAL DEBT SERVICE OBLIGATIONS WILL CONTINUE TO INCREASE--FROM DOLS 341 MILLION IN 1977 TO DOLS 524 MILLION IN 1982--BASED LARGELY ON EXISTING LOANS, SINCE ADDITIONAL BORROWING OVER THE NEXT FIVE YEARS IS ASSUMED TO CARRY GRACE PERIODS OF AT LEAST THREE YEARS. FOR THE CENTRAL GOVERNMENT ALONE, THE INCREASE IS FROM DOLS 119 MILLION IN 1977 TO AS HIGH AS DOLS 320 MILLION IN 1982--OR FROM 35 PER CENT TO 49 PER CENT OF CENTRAL GOVERNMENT REVENUES--ASSUMING THAT THE CENTRAL GOVERNMENT CARRIES ALL OF THE NEW BANK DEBT. THIS WOULD BE MODERATED TO THE EXTENT THAT AUTONOMOUS AGENCIES CARRIED THESE NEW LOANS.

7. THE NEW BORROWINGS WILL NEED TO RISE FROM THE DOLS 500 MILLION LEVEL IN 1977 AND 1978 TO DOLS 570 MILLION IN 1982 IN ORDER JUST TO MAINTAIN GOP INVESTMENT OUTLAYS AT THEIR PRESENT DOLS 400 MILLION ANNUAL LEVEL (REPRESENTING A

STEADY DECLINE IN REAL TERMS). FURTHERMORE, THIS PROJECTION ASSUMES THAT GOP ORDINARY REVENUES WILL INCREASE BY 12 PER CENT ANNUALLY PLUS DOLS 70 MILLION PER YEAR FROM THE CANAL OPERATION BEGINNING IN 1980; THAT ANNUAL GROWTH OF GOP MINISTERIAL OPERATING EXPENSES WILL NOT EXCEED 12 PER CENT; AND THAT THE AUTONOMOUS AGENCIES CAN COVER THEIR OWN INTEREST COSTS FROM THEIR OPERATING REVENUES (WHICH THEY DO NOT DO CURRENTLY). AT THIS BORROWING PACE, OUTSTANDING DEBT WILL RISE FROM DOLS 1764 MILLION IN 1977 TO DOLS 3062 MILLION IN 1982--HOLDING AT ROUGHLY 80 PER CENT OF GDP.

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8. FROM THE FOREGOING, WE SEE NO EVIDENCE THAT THE GOP'S DEBT SERVICING BURDEN OR BORROWING NEEDS WILL PEAK OUT ANY TIME SOON, SAY IN THE NEXT TEN YEARS, ESPECIALLY SINCE THE ASSUMPTIONS ON WHICH THE ABOVE PROJECTIONS ARE BASED ARE CLEARLY ON THE OPTIMISTIC SIDE. EVEN THE DOLS 70 MILLION CANAL PAYMENT INVOLVES A DEGREE OF UNCERTAINTY. MOREOVER, THE GOP MUST RELY EVEN MORE THAN HERETOFORE ON EXPENSIVE, RELATIVELY SHORT-TERM FOREIGN COMMERCIAL BANK CREDIT TO SUSTAIN ITS FISCAL STRUCTURE.

9. THUS, WE CONSIDER THAT THE GOP WILL SOON BECOME EXTREMELY VULNERABLE TO A FINANCIAL CRISIS SERIOUS ENOUGH TO REQUIRE A MASSIVE FINANCIAL BAILOUT. AN ESSENTIAL FIRST STEP TO EASE THIS THREAT WOULD BE A MAJOR STRENGTHENING OF ITS FISCAL STRUCTURE THROUGH A COMBINATION OF SUBSTANTIAL TAX BOOSTS AND SPENDING CURBS. THIS COURSE OF ACTION WOULD PROVE TO BE VERY DIFFICULT POLITIC-

ALLY NOW THAT THE POPULACE HAS COME TO EXPECT GREAT
MATERIAL BENEFITS AS A RESULT OF THE NEW CANAL TREATIES.
ALSO, THE GOP WILL BE LOATH TO SCRIMP IN ITS OUTLAY OF
BOTH FINANCIAL AND HUMAN RESOURCES IN DEVELOPING THE NEW
ASSETS AND CARRYING OUT THE ADDITIONAL SOVEREIGN RESPONS-
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BILITIES IT HAS ACQUIRED FROM THE TREATIES.

TOTAL PUBLIC SECTOR DEBT - 1977-1982
(MILLIONS)

1977 1978 1979 1980 1981 1982

(ACT)

DISBURSEMENT 497 504 544 498 520 571

AMORTIZATION 235 220 257 268 277 319

INTEREST 106 115 138 162 178 205

OUTSTANDING (12/31) 1764 2048 2335 2566 2810 3062

GDP (PLUS 12 PER

CENT P.A.) 2219 2485 2783 3117 3491 3910

DEBT/GDP (PER CENT) 79 82 84 82 80 78

CAPITAL REQUIRED

INVESTMENT 389 400 400 400 400 400

AMORTIZATION 235 220 257 268 277 319

TOTAL 624 620 657 668 677 719

LESS: GOP SOURCES (A) 127 117 116 167 156 147

BORROWING 497 503 541 501 521 569

CENTRAL GOVT. ONLY

CURRENT REVENUE 343 375 420 540 596 659

DEBT SERVICE 119 122 193 232 254 320

PER CENT REVENUE 35 33 46 43 43 49

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(A) ASSUME DOLS 100 MILLION P.A. FROM REPAYMENT OF GOP
LOANS TO AGRICULTURAL AND HOUSING SECTORS; THE BALANCE
IS PROJECTED CURRENT ACCOUNT SURPLUS. JORDEN

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